Summary of the $550,000,000 General Obligation Bonds, Series of June 2016 Ratings Presentation dated June 1st

During the week of May 30, 2016, the State of Illinois provided ratings presentations for the issuance of $550,000,000 General Obligation Bonds, Series of June 2016 (the "Bonds") to Moody's Investors Service, Inc., S&P Global Ratings, and Fitch Ratings Inc. The presentations contained a discussion of the following; Fiscal Year 2016 and 2017 Budgets, the State's debt profile, security for the bonds and plan of Finance. These items are explained in greater detail in the preliminary official statement and investor presentation for the Bonds posted on this website and at Munios.com. S&P Global Ratings has assigned a rating of "BBB+" with a Negative Outlook to the Bonds, Moody's Investors Service, Inc. has assigned a rating of "Baa2" with a Negative Outlook to the Bonds, and Fitch Ratings Inc. has assigned a rating of "BBB+" with a Negative Outlook to the Bonds.

The slides in the ratings presentation are summarized below.

Current Status of FY 2016 Budget

- As of May 31, 2016, a full FY 2016 General Funds budget has not been enacted.
- Certain appropriations were enacted and spending is occurring through statutory transfers, statutory continuing appropriations and court orders and consent decrees. Such spending includes:
  - General Obligation and Build Illinois bond debt service payments - State is current on all payments
  - Funding for elementary and secondary education
  - Medicaid and certain social service grant programs covered by consent decree
  - State employee payrolls by court order
  - $600 million from the Education Assistance Fund for higher education
- State agencies are only submitting vouchers for payment for items covered by appropriations, continuing appropriations or court orders/consent decrees.
- As of May 30, 2016 the Comptroller was holding $2.7 billion in unpaid General Funds vouchers and pending transfers.
  - This amount is bills on hand at the Comptroller's office and does not include bills that the agencies are holding. The Comptroller has estimated that approximately $4.1 billion in bills are on hold at the State agencies.

FY 2016 Estimated General Funds Revenues

- Under current statutes, total General Funds revenues for FY 2016 Estimated Budget are projected to be $31,712 million, a reduction from FY 2015 base revenues of $4,176 million (11.6%).
- Current forecast does not include an estimate for transfers of excess balances from other state funds as occurred in fiscal year 2015.
- Individual income tax performance has been stronger than estimated.

- Sales tax estimates were lower than initial estimates as the decrease in gasoline prices has translated into lower revenues this fiscal year.
- Federal revenue estimates have been reduced, but the final amount will depend on the timing of payments released by the Comptroller.

FY 2016 Estimated General Funds Expenditures

- FY 2016 Estimated Budget released at the time of the Governor's February 2016 budget address projects that General Funds spending will total $36,084 million, an increase of $726 million (2.1%) from FY 2015.
- Estimated pension contributions total $6.6 billion.
- Estimated transfers to other state funds total $4.6 billion, including $2.13 billion to the General Obligation Bond Retirement and Interest (GOBRI) Fund.
- These estimates reflect the estimate of trends at the time of FY 2017 Budget Book for General Funds spending but would need additional appropriation authority for all the payments to be made.
- The estimated spending reflects the Governor's introduced level of higher education spending, although only $600 million has been appropriated year-to-date.

- Absent any revenue or spending changes from the path estimated in February, the FY 2016 estimated General Funds deficit will total approximately $4.4 billion. However, additional FY 2016 appropriations would need to be enacted.

FY 2015 Pension Status

- Actuarial Assets as of FY15 are $78.1 billion
- The State Retirement System, in aggregate, is currently funded at 40.9% as of FY15 based on the asset smoothing method and 41.9% using asset market value; individual percentages for each fund vary
- Despite a lack of the FY16 budget, continuing appropriations allow the Retirement Systems to continue to voucher payments for the State's contribution. The Comptroller is making payments as cash is available
- The FY17 pension appropriation from all State funds is estimated at just under $8 billion

Outstanding "Bills"

- Illinois reduced its General Funds Budget Basis Accounts Payable in FY 2015 by $538 million to $3.521 billion, the third successive year of reduction
- General Funds "Section 25" bills – essentially current year bills that are paid for with future year appropriations – decreased in FY 2013, FY 2014, and FY 2015

FY 2017 Estimated General Funds Revenues

- General Funds revenues are estimated to total $32,818 million for FY 2017, a $1,106 million increase, or 3.5%, from FY 2016 revised estimates.
- This estimate reflects income tax rates remaining at current statutory levels with moderate growth rate assumptions.
- The estimate in the accompanying table also reflects an estimated $200 million from the divestiture of the Thompson Center (JRTC) and $275 million from delaying the repayment of the Budget Stabilization Fund (BSF) until the state is on better financial footing.
- FY 2017 General Funds revenues without JRTC or BSF are estimated to total $32,343 million.

FY 2017 Budget Proposal

- The estimated FY 2017 “maintenance” budget – without transformations and spending controls – was expected to lead to a $6,626 million deficit.
- After accounting for savings from transformations and proposed spending reductions - the Governor’s introduced budget for FY 2017 acknowledged the estimated remaining difference between FY 2017 expenditures and FY 2017 revenues totaled $3,526 million.
- Governor Rauner proposed two paths to address this:
  - Working Together – enact structural reforms and changes, and then the Governor would support additional revenues, or
  - Executive Management – enact legislation giving the Governor the tools to reduce spending and reallocate fund balances.

Either plan, if enacted, would meet Illinois’ constitutional requirement for a balanced budget.

Current Status of FY 2017 Budget

- As of May 31, 2016, the General Assembly has not advanced a FY 2017 balanced budget proposal.
- The Governor has proposed a “bridge” FY 2016 and FY 2017 appropriations bill to cover essential state spending that would include:
  - Passage of a full year of funding for elementary and secondary education
  - Passage of full year spending authority to spend federal and other state funds outside of the General Funds for FY 2016 and FY 2017
  - Capital appropriations for state construction projects
  - Limited General Funds appropriations for critical State government operations tied to forgiveness of repayment of interfund borrowing
- In absence of a full Fiscal Year 2017 budget, the State expects that the spending patterns would mirror the pattern seen in Fiscal Year 2016.
  - Continuing appropriations would provide for pension payments and general obligation and Build Illinois bond debt service.
  - The State expects that court orders and consent decrees governing Fiscal Year 2016 spending would continue to direct spending in FY 2017, including Medicaid, state employee payroll, and certain social services payments.
  - Statutory transfers to other state funds, including those for debt service, would continue.

Security Features for State General Obligation Bonds

- The full faith and credit of the State is pledged for the punctual payment of principal and interest under the Illinois General Obligation Bond Act which provides strong constitutional and statutory provisions for our bondholders
- The budget impasse highlights the importance of the protections that state has put into place through this act – protections include:
  - Advance set aside of debt service payments - The state funds debt service in advance by setting aside 1/12 of principal and 1/6 of interest every month in the general obligation retirement and interest fund – commonly known as GOBRI
  - The act itself constitutes an irrevocable and continuing appropriation for all GO debt service, and continuing authority and direction to the state treasurer and comptroller to make all necessary transfers from any and all revenues and funds of the state.
  - State law explicitly provides bondholders the remedy to sue the State to compel payment and to satisfy the State's bond obligations
  - The Illinois Constitution contains a "non-impairment" clause that prohibits action by the General Assembly that would, under contract law, impair the obligations of a contract between the State and its bondholders

The State's GOBRI Fund Cash Balances Are Strong

- GOBRI funding is a 1st priority to the State
- Moneys in the GOBRI fund are used only for the payment of principal and interest on all the GO bonds issued under the bond act, including short term debt
- The State has strong liquidity to make debt service payments
- The state can access any legally available cash balances held at the treasury to pay debt service
- Revenues available to make debt service average approx. $2.5 billion a month and provide approximately 12.5x coverage of the on average less than $200 million required to be transferred into GOBRI each month for debt service.
- For the last five years, transfers to the GOBRI fund have totaled above $2.8 billion by the end of each fiscal year.
- As of May 31, 2016, $1.03 billion was available in the GOBRI Fund

General Obligation Bond Debt Service

- The state has a total of $25.8 billion of general obligation debt outstanding as of the end of fiscal year 2016.
- Conservative debt profile, only 2.3% of the portfolio is hedged variable rate debt

Variable Rate Bonds- Series 2003B and Letters of Credit

- The Series B of October 2003 Bonds have an outstanding principal amount of $600million
- The Bonds are supported by 6 direct pay Letters of Credit
- The Letters of Credit expire on November 27, 2016.
- As the State's rating on its general obligation bonds changes, fees of the Credit Providers and the interest rate on advances under the Letters of Credit also adjust.
- The State is party to five separate, but substantially identical, interest rate exchange agreements dated October 1, 2003 to hedge the variable rate on the Series 2003B Bonds to a synthetic fixed rate
    - The aggregate notional amount of these agreements is $600 million, which bear a fixed interest rate of 3.89%
    - The Agreement amounts amortize with the Series 2003B Bonds until their final maturity on October 1, 2033
    - A Counterparty may terminate its related Agreement if the rating on the State's general obligation bonds is withdrawn, suspended or rated below "BBB" by S&P or below "Baa2" by Moody's.
    - If the Agreements are terminated, the Series 2003B Bonds would continue to bear interest at a variable rate, and the State would be liable for a termination payment if the Agreements have a negative present value.
    - As of April 30, 2015, the estimated aggregate present valuation for all of the Agreements for the State is negative $155 million.

Deal Summary- General Obligation Bonds, Series of June 2016

- Size: $550,000,000
- Competitive sale structure
- Use of Proceeds:
    - Transportation related projects: $530 million
    - General State capital construction projects: $20 million
- Bid Date is June 16, 2016
- Level principal payments of $22 million from 6/1/2017 to 6/1/2041
    - First interest payment: 12/1/2016
- The bonds are callable starting June 1, 2026
- Taxa status - Tax-exempt